

AR08

1976



COLONIAL
OIL & GAS LIMITED

Annual Report

**COLONIAL OIL AND GAS LIMITED
and SUBSIDIARIES**

COG Inc
 Fort Nelson Gas Ltd
 Fort Nelson Transmission Co Ltd
 General Utilities Corporation Ltd
 West Ridge Resources Inc
 West Ridge Resources Ltd

DIRECTORS

R. JAMES BALFOUR, Q.C.
Member of Parliament, Ottawa, Ontario

JOHN L. GIBSON
Chairman, Highmont Mines Ltd, Vancouver, B.C.

ROBERT W. HOLE
President, Lockerbie & Hole Ltd, Vancouver, B.C.

HARVEY A. McDIARMID
President, National Homes Ltd, Vancouver, B.C.

WILLIAM H. PRICE
*Executive Vice President, Colonial Oil & Gas Ltd
 Calgary, Alberta*

JOHN B. ROSS
*President, Burrard Mortgage Investments Ltd
 Vancouver, B.C.*

FRANK J. SIMINGTON
President, General Utilities Ltd, Vancouver, B.C.

NICOLAAS M. VAN DRIMMELLEN
President, Netherlands Acceptance, Vancouver, B.C.

OFFICERS:

HARVEY A. McDIARMID — President
 WILLIAM H. PRICE — Executive Vice President
 ROBERT H. HOLE — Vice President
 NORMAN S. BRUMWELL —
Vice President & General Manager
 FRED W. MAYCOCK — Secretary
 LENARD E. S. HORTON — Treasurer

REGISTERED OFFICE:

1600 - 1177 W. Hastings Street
 Vancouver, British Columbia V6E 2L2, Canada

ADMINISTRATION OFFICE:

1300 - 100 W. Pender Street
 Vancouver, British Columbia V6B 1R8, Canada
 Telephone (604) 685-9821

CALGARY EXECUTIVE OFFICE:

1650 Canada Place
 407 - 2nd Street S.W.
 Calgary, Alberta T2P 2Y3, Canada
 Telephone (403) 264-9430

BANKERS:

ROYAL BANK OF CANADA
 1025 W. Georgia Street
 Vancouver, British Columbia V6E 3N9, Canada

REGISTRAR AND TRANSFER AGENT:

MONTREAL TRUST COMPANY
 Vancouver and Regina, Canada

AUDITORS:

DELOTTE, HASKINS & SELLS
 1500 - 1055 W. Georgia Street
 Vancouver, British Columbia, Canada

STOCK LISTING:

VANCOUVER STOCK EXCHANGE

Report of the Directors to the Members

FINANCIAL:

The year 1976, although a great improvement over 1975, did not come up to expectations. One reason for this was the fact that the Winnifred Gas Unit which was expected to be in production in the spring of 1976, did not go on stream until late October. Another disappointment was the legal controversy that erupted over U.S. gas prices after the Federal Power Commission authorized substantial price increases effective July 27, 1976. We have been advised that the increased prices will be paid retroactive to that date, subject to roll-back if the court so rules, and we have accepted this condition of repayment. Despite this, we still are receiving an average of 53¢ per MCF after Royalties on our Montana Production, instead of an estimated one dollar per MCF. Sales of gas and oil increased by 63% with an increase in net profit of 101% while cash flow showed a dramatic improvement of 81% over the previous year.

EXPLORATION AND DEVELOPMENT:

The Company and subsidiaries participated, or other companies drilled on our acreage a total of 23 wells in 1976, of which 17 were successful. Of these 1 is a producing oil well and 16 are gas wells, some of which are not yet on production.

CORPORATE AFFAIRS:

In Sept. 1976 Mr. Norman S. Brumwell, P.Eng. joined the Company as Vice-President and General Manager. Under his direction all operations except Fort Nelson Gas Ltd. are being operated from Calgary.

SUBSEQUENT EVENTS:

On Feb. 28, 1977 Colonial Oil & Gas Ltd., along with wholly owned subsidiaries General Utilities Ltd. and West Ridge Resources Ltd. completed a financing package with the Great West Life Assurance Co. of Canada in the amount of \$1,400,000.00. The term of the loan is 12 years at 11% interest, secured by a first charge on the Company's interest in the Donalda and Winnifred Gas Units in Alberta.

The proceeds have been used to pay off all outstanding bank loans, as well as repayment in full of the balance of the 5 year debenture which was secured by a charge on the COG, Inc. interest in the Bullhook Gas Unit.

In addition to the above, 290,000 common shares of the capital stock of the Company were sold in a private placement at 76¢ per share to net the Company \$220,400.00. None of these shares may be traded for six months from date of issue, and in the case of Directors or insiders they must be held for a minimum of 12 months.

As a result of the above transactions, the Companies have no short term or demand loans, with \$225,000 cash in interest bearing term deposits available for our share of the cost of drilling one new well and connecting 5 capped wells in the Donalda Unit, drilling one new well and connecting 4 capped wells in the Winnifred Unit, and proposed drilling of up to 12 development wells in the Bullhook Unit in Montana.

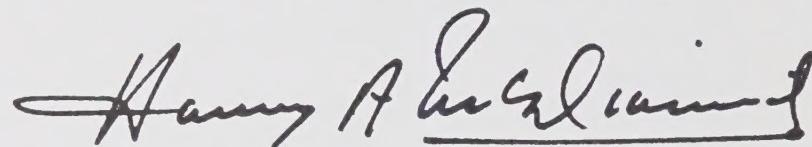
In addition to the above the Company has agreed to provide 25% of the funds to drill, and will provide 17½ % of the funds to complete if successful, a ten thousand foot test in La Fayette Parish, Louisiana. The lease on which drilling will commence prior to Aug. 1, 1977 is located in the centre of a producing field that has produced oil since 1949. It is expected that our share of the cost will be approximately \$110,000.00.

Many opportunities to participate in drilling, both in Western Canada and the U.S.A. have been offered to the Company, and serious consideration is being given to establishing a drilling fund for Canadian participation in Canadian oil and gas exploration under the current favourable Canadian Tax rules.

The Directors wish to thank the management and staff for their continued support, which has contributed so much to the improved operation of the Company.

A brief review of the major holdings of the Company is covered in the next section of the report.

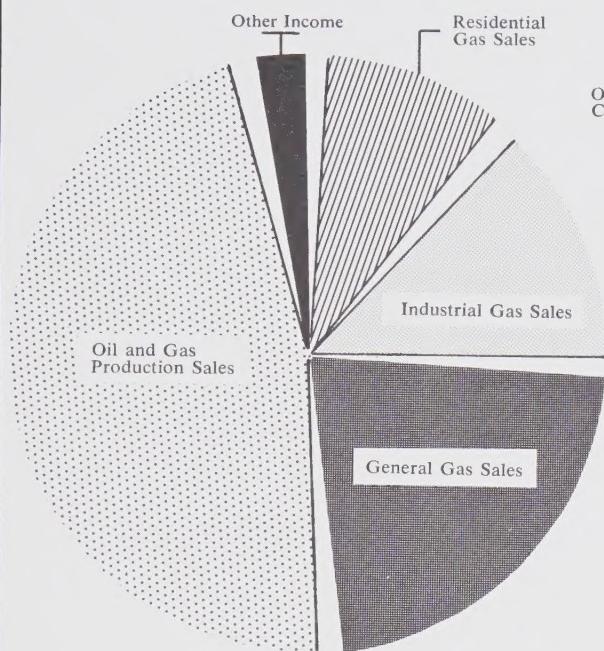
On behalf of the Board



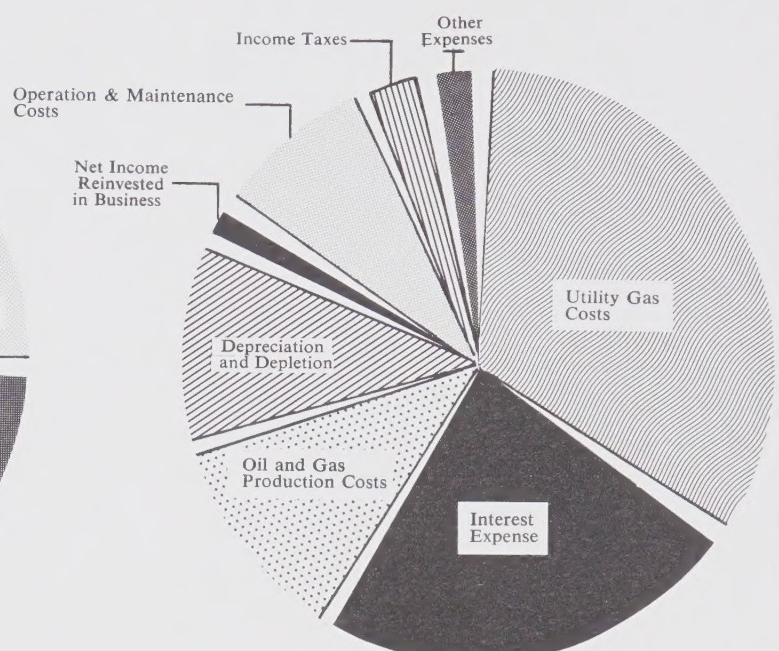
Harvey A. McDiarmid
President

The 1976 Revenue Dollar

Where it came from



Where it went



BULLHOOK - MONTANA

Due to the continued controversy over gas prices in the Interstate market, further development wells that had been planned for completion in 1976 were not drilled, however 7 test wells were drilled on non-unit lands where leases were expiring. Two were successful and 5 were dry and abandoned.

Despite filing the necessary documents with the Federal Power Commission guaranteeing repayment of money to be received pursuant to approved price increases, if these increases are ordered rolled-back by the U.S. Court of Appeal, we have not yet received the increase expected to be effective last July 27, 1976. We presently average about 53 cents per MCF after Royalty, and under the price structure recommended by the FPC would receive nearly double this amount. It can be readily seen why there were such dramatic gas shortages in the United States East of the Mississippi during this most severe winter.

If and when the price increase is paid, more development wells can be justified and will be drilled.

FORT NELSON GAS LTD.

1976 was a very disappointing year thanks to a combination of the mildest winter in our history, and the low rates ordered by the British Columbia Energy Commission.

The bright spot of the year is Fort Nelson's location on the Alaska Highway and being the Northern terminal of the B.C. Railroad. Due to its' strategic position it is quite possible for this Village to become a major distribution centre for any pipe line coming south from the North West Arctic region. Highway construction is now proceeding to connect Fort Nelson to Fort Simpson on the Mackenzie River. Should a pipeline be built either down the Mackenzie or along the Alaska Highway the activity and growth of the Village would be greatly accelerated.

A tentative agreement has been reached between B.C. Hydro and the Producers of Natural Gas, subject to the approval of the British Columbia Energy Commission, to pay 79¢ per MCF for all gas purchased commencing June 1, 1977. This compares to 19.75¢ per MCF now being paid.

Fort Nelson Gas Ltd.'s Gas Purchase Agreement is with B.C. Hydro and the price charged B.C. Hydro by the Producers, will be the price paid by Fort Nelson Gas Ltd.

Fort Nelson Gas has been collecting 50¢ per MCF on each MCF sold to its customers since Nov. 1, 1976. This money is being held in short term deposits until a fixed gas price to the Producer

is determined, or, is to be returned to the customer should the cost of gas not be increased. No definite instruction as to the disposition of these funds has been received as of April 30, 1977.

Fort Nelson Gas Ltd.

	1976	1975	1974
Volume of gas sold	458,199 MCF	478,567 MCF	379,846 MCF
Value of gas sold	\$426,572.43	\$421,628.00	\$321,356.00
Number of Residential Accounts	677	617	585
Number of General Accounts	214	208	98
Number of Industrial Accounts	2	2	1
Average Monthly/ Customer Billing —			
Residential	13.09	16.43	18.92
General	82.78	93.05	142.19
Industrial	5,874.43	6,152.60	3,242.00

SASKATCHEWAN

Oil production continued to be mainly from the Lucky Hills and Avon Hills area of Saskatchewan with the new producer at Midale adding nearly 1000 barrels.

The price received continued to be disappointing, but the new policy recently announced by the Saskatchewan Government indicates future price increases will be shared 55% to the Province and 45% to the producer.

DONALDA - ALBERTA

Production from this Unit increased 54% over 1975. One new well is to be drilled and five capped wells will be connected during 1977. The performance of this Unit continues to exceed earlier expectations.

WINNIFRED UNIT - ALBERTA

The Winnifred Unit went on production on Oct. 20, 1976, and is producing at a rate of about 4 million cubic feet per day. Since the contract calls for a minimum of 6 million cubic feet per day, a further well is to be drilled and four capped wells will be connected.

COLONIAL OIL & GAS LIMITED
(Under the Companies Act, British Columbia)

Consolidated Balance Sheet as at December 31, 1976
(With prior year's figures for comparison)

ASSETS

	1976	1975
CURRENT ASSETS:		
Cash	\$ 89,645	\$ 34,414
Accounts receivable	278,013	161,737
Inventories of supplies — at specific cost	42,672	57,487
Prepaid expenses	4,384	7,254
Total current assets	<u>414,714</u>	<u>260,892</u>
PROPERTY, PLANT AND EQUIPMENT (Note 2)	<u>3,926,417</u>	<u>3,854,055</u>
OTHER ASSETS		
Incorporation and organization costs	12,132	12,132
Deferred charges — at cost less amounts amortized	53,798	65,916
Deposits	27,500	27,500
Goodwill —at cost	76,535	76,535
Total other assets	<u>169,965</u>	<u>182,083</u>
TOTAL	<u>\$ 4,511,096</u>	<u>\$ 4,297,030</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

	1976	1975
CURRENT LIABILITIES:		
Bank indebtedness (Notes 3 and 10)	\$ 278,048	\$ 460,973
Accounts payable and accrued liabilities	285,297	213,587
Loan payable — directors, 12%, payable on demand	—	130,000
Security deposits	26,534	42,532
Current portion of long-term debt	119,500	250,500
Total current liabilities	<u>709,379</u>	<u>1,097,592</u>
LONG-TERM DEBT (Notes 4 and 10)	<u>1,471,500</u>	<u>820,000</u>
ADVANCES ON FUTURE GAS SALES (Note 5)	<u>394,664</u>	<u>475,171</u>
DEFERRED INCOME TAXES	<u>116,171</u>	<u>87,384</u>
SHAREHOLDERS' EQUITY:		
Share capital:		
Authorized:		
5,000,000 common shares of no par value		
Issued and fully paid:		
2,974,556 shares (Note 6)	2,486,969	2,486,969
Deficit	(667,587)	(670,086)
Net shareholders' equity	<u>1,819,382</u>	<u>1,816,883</u>
TOTAL	<u>\$ 4,511,096</u>	<u>\$ 4,297,030</u>

APPROVED BY THE BOARD:

Director

Director

COLONIAL OIL & GAS LIMITED
Consolidated Statement of Income and Deficit
For the year ended December 31, 1976
(With prior year's figures for comparison)

	1976	1975
SALES:		
Oil and gas - net of royalties \$131,565 (1975 - \$73,896)	\$ 492,527	\$ 308,143
Gas distribution	508,998	450,712
Total sales	<u>✓</u> 1,001,525	758,855 <u>✓</u>
COSTS AND EXPENSES BEFORE OTHER CHARGES:		
Operating — oil and gas	89,106	78,734
— gas distribution	232,723	190,208
Interest — long-term	146,085	154,452
— other	66,980	23,005
Salaries and employee benefits	143,847	101,577
Professional and consulting fees	43,944	55,663
Other general and administrative	81,939	46,619
Total costs and expenses before other charges	<u>✓</u> 804,624	650,258
FUNDS GENERATED FROM OPERATIONS	<u>✓</u> 196,901	108,597
OTHER CHARGES:		
Depletion	71,624	49,769
Depreciation	62,610	57,486
Loss on disposal of equipment	—	7,813
Amortization of financing costs	17,268	16,256
Cost of abandoned properties	16,113	151,749
Total other charges	<u>✓</u> 167,615	283,073
INCOME (LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	<u>✓</u> 29,286	(174,476)
PROVISION FOR INCOME TAXES (Note 1(d)):		
Current	6,150	12,900
Deferred	<u>✓</u> 26,787	11,675
Total provision for income taxes	<u>✓</u> 32,937	24,575
LOSS BEFORE EXTRAORDINARY ITEM	<u>✓</u> (3,651)	(199,051) <u>✓</u>
EXTRAORDINARY ITEM:		
Tax reduction resulting from application of prior year's tax loss	6,150	12,900
NET INCOME (LOSS) FOR THE YEAR — per share (Note 9)	2,499	(186,151)
DEFICIT AT BEGINNING OF THE YEAR	670,086	483,935
DEFICIT AT END OF THE YEAR	<u>✓</u> \$ 667,587	\$ 670,086

The accompanying notes are an integral part of the consolidated financial statements.

COLONIAL OIL & GAS LIMITED

Consolidated Statement of Changes in Financial Position

For the year ended December 31, 1976

(With prior year's figures for comparison)

	1976	1975
WORKING CAPITAL PROVIDED:		
Generated from operations	\$ 196,901	\$ 108,597
Proceeds from disposal of properties and equipment	7,343	31,758
Contributions — natural gas consumers and others	11,894	29,111
Bank loans	548,000	313,000
Reduction in current portion of bank loans (Notes 4 and 10(a))	376,750	—
Total working capital provided	<u>1,140,888</u>	<u>482,466</u>
WORKING CAPITAL APPLIED:		
Paid or payable on long-term debt	273,250	186,500
Additions to petroleum and natural gas properties	101,176	175,123
Additions to plant and equipment	138,770	113,440
Repayment of advances on future gas sales	80,507	67,074
Deferred charges	5,150	23,706
Total working capital applied	<u>598,853</u>	<u>565,843</u>
(DECREASE) INCREASE IN WORKING CAPITAL DEFICIENCY FOR THE YEAR	<u>(542,035)</u>	<u>83,377</u>
WORKING CAPITAL DEFICIENCY AT BEGINNING OF THE YEAR	836,700	753,323
WORKING CAPITAL DEFICIENCY AT END OF THE YEAR	<u>\$ 294,665</u>	<u>\$ 836,700</u>

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements December 31, 1976

1. SIGNIFICANT ACCOUNTING POLICIES:

(a) Consolidation:

The consolidated financial statements include the accounts of the company and its subsidiaries, all of which are wholly-owned.

COG, Inc.

General Utilities Corporation Limited
and its wholly-owned subsidiaries, Fort Nelson Gas Ltd.
and Fort Nelson Transmission Co. Ltd.

West Ridge Resources Ltd.

and its wholly-owned subsidiary, West Ridge Resources
Inc.

The excess of the purchase price of the shares of certain acquired subsidiaries over their net book values has been allocated to properties, plant and goodwill. The goodwill is not being amortized.

The accounts of U.S. subsidiaries have been translated to Canadian funds at par as use of current and historic rates would have no material effect on the financial statements.

(b) Petroleum and Natural Gas Properties and Depletion:

All costs relative to the acquisition, exploration, and development of oil and gas reserves are capitalized until such time as commercial production commences or the property is abandoned. Costs applicable to abandoned properties are charged to operations in the year of abandonment. Depletion of producing properties is provided for on the unit-of-production method based on the estimated recoverable reserves of oil and gas.

(c) Depreciation:

Depreciation is provided over the estimated useful lives of assets on the following basis:

(i) Gas transmission and distribution facilities and other equipment at rates from 2% to 20% of cost as prescribed by the British Columbia Energy Commission.

(ii) Gas and oil production equipment on the straight line and declining balance bases at rates from 10% to 30%.

(d) Income Taxes:

The company and certain of its subsidiaries have losses for tax purposes aggregating approximately \$216,000 which may be utilized to reduce future years' taxable incomes. The losses expire as follows: 1977 - \$48,000, 1978 - \$37,000, 1979 - \$32,000, 1980 - \$53,000, 1981 - \$56,000. Any reduction in taxes payable will be recorded when the losses are utilized. As well, the company and certain subsidiaries have unclaimed development and exploration expenditures amounting to approximately \$2,360,000 which may be claimed on various bases as a deduction for tax purposes in future years.

The current and deferred income taxes reflected in these financial statements arise from the operations of four of the company's subsidiaries.

2. PROPERTY, PLANT AND EQUIPMENT:

	1976	1975
Petroleum and natural gas properties —		
at cost	\$ 2,959,296	\$ 2,878,584
Less accumulated depletion	252,086	180,462
Net property	<u>2,707,210</u>	<u>2,698,122</u>
Gas and oil production equipment	264,286	203,660
Gas transmission and distribution facilities	1,247,456	1,173,724
Other	127,861	139,484
Less contributions from natural gas consumers, in aid of construction	1,639,603	1,516,868
Net cost	110,412	98,518
Less accumulated depreciation	1,529,191	1,418,350
Net plant and equipment	<u>1,219,207</u>	<u>262,417</u>
Net property, plant and equipment	<u>\$ 3,926,417</u>	<u>\$ 3,854,055</u>

Notes to the Consolidated Financial Statements

3. BANK INDEBTEDNESS:

Colonial Oil & Gas Limited:

Secured by a debenture with a specific second charge on gas interest owned by COG, Inc. and a floating charge on all the assets of the parent company (Note 10(b))

Excess of cheques issued over cash on deposit

TOTAL

\$ 115,000	\$ 425,000
163,048	35,973
\$ 278,048	\$ 460,973

4. LONG-TERM DEBT:

11½% demand loan, secured by a floating charge on all the assets of the parent company and a specific second charge on the gas interest owned by a subsidiary

11½% production loans, secured by an assignment of production proceeds from specific gas properties

7% Series A first mortgage bonds due 1984, payable in annual instalments of \$13,000 and secured by a charge on gas distribution, plant and equipment

9½% Series B first mortgage bonds due 1986, payable in annual instalments of \$25,000 and secured by a charge on gas distribution, plant and equipment

7% Series A first mortgage bonds due 1985, payable in annual instalments of \$6,500 and secured by a charge on gas transmission line

9¼% Debentures, due January 1, 1977

Less due within one year

Net long-term debt

The bank loans totalling \$1,185,000 were repaid in February 1977 out of the proceeds of new long-term financing discussed in Note 10(a). The production loans have been classified as long-term debt because they were refinanced out of the proceeds of the above noted financing. The determination of principal repayments on long-term debt due in 1977 gives effect to the new financing and consists of:

Payments required on mortgage bonds

\$ 44,500

Payments required on new financing

75,000

\$ 119,500

Payments required for retirement of long-term debt over the next five years and which give effect to the new financing (Note 10 (a)) are as follows:

1977	—	\$ 119,500
1978	—	144,500
1979	—	144,500
1980	—	144,500
1981	—	163,250

5. ADVANCE ON FUTURE GAS SALES:

These advances have been made by Northern Natural Gas Company under the terms of its gas purchase agreements with two subsidiaries covering the Bullhook field. The advances are interest free and are repayable at the rate of 33½% of the sales value of gas delivered.

Amounts so repaid during the year totalled \$80,507 (1975 - \$67,074).

6. SHARE CAPITAL:

Details of the issued share capital are as follows:

	Number of Shares	Amount
Issued for cash	1,750,005	\$1,017,507
Issued for shares of subsidiary companies	1,224,551	1,469,462
TOTAL	2,974,556	\$2,486,969

The company has granted options in respect of 400,000 shares to certain employees, three of whom are directors of the company. The options may be exercised as follows:

- (a) For 100,000 shares, the options may be exercised to acquire up to 25% of the shares annually, on a cumulative basis (until 1980 at a price of 50¢ per share increasing by 10¢ annually to a maximum of 80¢ in 1980).
- (b) For 300,000 shares, the options may be exercised to acquire up to 25% of the shares annually, on a non-cumulative basis until 1981 at a price of 50¢ per share.

7. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

The aggregate direct remuneration paid or payable to directors and senior officers, as defined in the Companies Act, British Columbia, totalled \$115,702 for the year, of which \$112,702 was paid to full-time employees.

8. LEASE COMMITMENTS:

The company is committed under leases for the rental of office premises and construction equipment for the next five years as follows:

1977	—	\$34,300
1978	—	29,830
1979	—	28,820
1980	—	4,670
1981	—	3,500

9. FUNDS GENERATED (LOSS) PER SHARE:

	1976	1975
Funds generated from operations	6.6¢	3.7¢
Loss before extraordinary items	— ¢	(6.7¢)
Extraordinary items	—	.4
Loss after extraordinary items	— ¢	(6.3¢)

10. SUBSEQUENT EVENTS:

- (a) On February 15, 1977, Colonial Oil & Gas Limited and two of its wholly-owned subsidiaries, West Ridge Resources Ltd. and General Utilities Corporation Limited, completed arrangements for long-term financing amounting to \$1,400,000. The financing consists of a debenture and mortgage given to the Great West Life Assurance Company on a joint and several basis and is secured by a first charge on the companies' interests in two specific petroleum and natural gas properties, by production equipment on the properties and by the assignment of production purchase agreements and net proceeds from sale of minerals from the pledged properties. The debenture bears interest at 11% and the principal amount is repayable \$25,000 quarterly commencing June 1977 to March 1981 and \$31,250 quarterly from June 1981 to March 1989.

The debenture agreement provides for the acceleration of principal repayments on the basis of increases in production revenues from the pledged properties.

The proceeds of the debenture were used to repay bank loans of \$1,185,000 (Note 4) and for general corporate purposes.

- (b) In February 1977, the company, by way of a private placement, issued 290,000 shares at a price of .76¢ per share. The proceeds of issue of \$220,400 were used to reduce current bank borrowings.

DELOITTE, HASKINS & SELLS

Offices across Canada and associated firms throughout the world

Chartered Accountants

BOX 11114, ROYAL CENTRE, 1055 WEST GEORGIA STREET, VANCOUVER, BRITISH COLUMBIA V6E 3P8

To the Shareholders of
Colonial Oil & Gas Limited:

We have examined the consolidated balance sheet of Colonial Oil & Gas Limited as at December 31, 1976 and the consolidated statements of income and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Deloitte, Haskins & Sells

Auditors

April 20, 1977

